

Message Text

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ACTION OPIC-06

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FM AMEMBASSY SANTO DOMINGO

TO SECSTATE WASHDC 3831

C O N F I D E N T I A L SANTO DOMINGO 2394

E.O. 11652: GDS

TAGS: EFIN, DR

SUBJ: OPIC GUARANTEE FOR EXPANSION OF GENERAL TELEPHONE AND
ELECTRONICS

REF: A) STATE 96652; B) SD 2079; C) STATE 117200

1. THE FOLLOWING ADDRESSES THE DEVELOPMENTAL AND POLITICAL
QUESTIONS RAISED IN REFTEL A.

2. DEVELOPMENTAL BENEFITS - ON THE ASSUMPTION THAT AN OPIC GUARANTEE
WILL MAKE THE DIFFERENCE IN WHETHER OR NOT GENERAL TELEPHONE AND
ELECTRONICS (GT AND E) CARRIES OUT ITS PROJECTED INVESTMENT
PROGRAM, THE COUNTRY TEAM CONCLUDES THAT AN OPIC GUARANTEE WOULD
HAVE BENEFICIAL EFFECTS ON THE DEVELOPMENT OF THE COUNTRY--BENEFITS
IN TERMS OF BOTH QUANTITY AND QUALITY.

3. IN REGARD TO THE FORMER, THE GUARANTEE WOULD RESULT IN EXPANDING
THE TELEPHONE NETWORK WITHIN THE MAJOR CITIES AND AMONG THE DIFFERENT
CITIES AND TOWNS OF THE COUNTRY. THE LARGER CITIES SUCH AS SANTO
DOMINGO AND SANTIAGO ARE GROWING AT AN ANNUAL RATE OF ABOUT SEVEN
PERCENT. AT THE SAME TIME, MANY OUTLYING TOWNS ARE NOT CONNECTED
WITH EACH OTHER OR WITH PRINCIPAL CITIES OF THE COUNTRY. IN A PATTERN
TYPICAL OF MUCH OF LATIN AMERICA, MANY DOMINICANS LIVE IN THE
LARGER CITIES WHERE THERE ARE MORE AMENITIES AND ATTEMPT TO
OPERATE FARMING, DAIRY, RANCHING, AND OTHER ENTERPRISES OFTEN AT
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SOME DISTANCE FROM THEIR PRINCIPAL PLACE OF RESIDENCE. IMMEDIATE

AND RELIABLE COMMUNICATION WOULD CONTRIBUTE TO THE EFFICIENCY OF BOTH PUBLIC AND PRIVATE INSTITUTIONS.

4. AS FOR QUALITY, NOT ONLY WOULD AN OPIC GUARANTEE RESULT IN ADDITIONAL FUNDS FOR IMPROVEMENTS AND MAINTENANCE, BUT A LARGE NEW INVESTMENT MIGHT POSTPONE ANY POSSIBLE NATIONALIZATION. THE QUALITY OF THE TELEPHONE SERVICE WILL ALMOST ASSUREDLY BE HIGHER IF THE NETWORK REMAINS IN THE HANDS OF GT AND E. SHOULD THE STATE TAKE OVER THE COMPANY, ONE WOULD NORMALLY EXPECT THAT, FOR POLITICAL REASONS, RATES WILL NOT BE INCREASED, DISINVESTMENT WILL SET IN, NEEDED EXPANSION WILL BE STYMIED, AND A GENERAL DETERIORATION IN SERVICE WILL COME ABOUT.

5. QUALITY WILL PROBABLY ALSO SUFFER IN THE INSTALLATIONS WHICH ALREADY EXIST IF GT AND E FAILS AT THIS TIME TO UNDERTAKE ITS MAJOR EXPANSION. DEMANDS FOR ADDED CONNECTIONS IN THE PRINCIPAL CITIES WILL NOT BE MET, NOR WILL NEW CONNECTIONS TO OUTLYING TOWNS BE MADE. IN SUCH CIRCUMSTANCES, CRITICISM OF THE COMPANY MAY MOUNT, AND GT AND E MAY VERY WELL DECIDE IT MUST CUT ITS LOSSES. AT SOME POINT THE COMPANY WOULD THEN EVEN WELCOME NATIONALIZATION IF IT GETS A FAIR SETTLEMENT.

6. POLITICAL ASPECTS AND ENVIRONMENT FOR GT AND E - FOR AS LONG AS 67-YEAR OLD PRESIDENT BALAGUER REMAINS IN OFFICE, THE COUNTRY TEAM BELIEVES THAT THE ODDS ARE SUBSTANTIALLY BETTER THAN EVEN THAT THE TELEPHONE COMPANY WILL NOT BE NATIONALIZED, AND THAT SHOULD IT BE, THE GOVERNMENT WOULD MAKE PROMPT, ADEQUATE, AND EFFECTIVE COMPENSATION.

7 IT IS OBVIOUSLY BECOMING INCREASINGLY DIFFICULT FOR FOREIGNERS TO HOLD LARGE INVESTMENTS IN LATIN AMERICA IN THE PUBLIC UTILITY OR TELECOMMUNICATIONS SECTORS. MOREOVER, IT IS CONCEIVABLE THAT AT SOME FUTURE DATE PRESIDENT BALAGUER MIGHT FEEL CONSTRAINED TO USE THE TELEPHONE COMPANY AS SOMETHING OF A WHIPPING-BOY TO PLACATE EXTREMISTS. THE COUNTRY TEAM, HOWEVER, DOES NOT ANTICIPATE BALAGUER'S COMING UNDER SUFFICIENT POLITICAL PRESSURE TO LEAD HIM TO SUCH ACTION.

8. THIS IS NOT TO SAY THAT THE TELEPHONE COMPANY WILL NOT CONTINUE
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TO BE FAIR GAME FOR NATIONALIST OUTBURSTS. A COUPLE OF MONTHS AGO, FOR EXAMPLE, VICE PRESIDENT GOICO MORALES, AND THE PRESIDENT OF THE SENATE TOOK PUBLIC SWIPES AT THE TELEPHONE COMPANY, STATEMENTS WHICH LOCAL GT AND E OFFICIALS HAVE NOT TAKEN VERY SERIOUSLY.

9. PERHAPS THE GREATEST THREAT TO THE TELEPHONE COMPANY WOULD BE IN A SITUATION IN WHICH IT FOUND ITSELF IN A SERIOUS LABOR DISPUTE DURING A PERIOD OF WIDESPREAD SOCIAL UNREST BROUGHT ON BY PROLONGED

ECONOMIC CRISIS, SUCH AS CONTINUED DEPRESSION OF INTERNATIONAL SUGAR PRICES AND/OR RAMPANT INFLATION. IF ON TOP OF THIS, THE TELEPHONE COMPANY OFFICIALS SHOULD MISMANAGE SUCH A LABOR DISPUTE, IT MIGHT VERY WELL FIND ITSELF NATIONALIZED.

10. THE COUNTRY TEAM FEELS, HOWEVER, THAT THIS SCENARIO IS AN UNLIKELY

COMBINATION OF THE WORST POSSIBLE CIRCUMSTANCES. INTERNATIONAL SUGAR PRICES ARE APPARENTLY NOT RPT NOT GOING TO COLLAPSE, AND THE DOMINICAN

ECONOMY IS NOT RPT NOT EXPECTED TO EXPERIENCE A CRISIS.

MOREOVER, THE HISTORY OF THE US MILITARY OCCUPATION OF THE DR, AND ITS PROXIMITY TO THE US. MAKE THE DOMINICANS MORE CONSCIOUS THAN MOST LATIN AMERICANS OF THE POWER AND INFLUENCE OF THE US.

11. TO THE EXTENT ONE CAN REASONABLY PREDICT THE FUTURE, THE COUNTRY TEAM ANTICIPATES CONTINUED POLITICAL AND ECONOMICAL STABILITY WHILE BALAGUER REMAINS IN OFFICE, AND SO LONG AS SUCH STABILITY PREVAILS, THE TELEPHONE COMPANY'S CHANCES OF ESCAPING NATIONALIZATION ARE FAIRLY GOOD. BALAGUER'S PRESENT TERM ENDS IN 1978 AND IT IS NOT CLEAR WHETHER HE WILL RUN AGAIN. IF HE DOES, HE WILL PROBABLY BE REELECTED, AND IF HE DOES NOT, THE CHANCES ARE PRETTY GOOD THAT HE WILL BE SUCCEDED BY ANOTHER RELATIVELY MODERATE ADMINISTRATION WHICH WILL RESPECT US INTERESTS.

12. THE OPERATIVE FACTOR, HOWEVER, IS THE RISK OF LOSS TO THE US GOVERNMENT. THE COUNTRY TEAM'S JUDGMENT IS THAT, IN THE EVENT OF NATIONALIZATION IN THE FORESEEABLE FUTURE, COMPENSATION WILL BE PROMPT, ADEQUATE AND EFFECTIVE.
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